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## Appropriations Committee

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### HB 2683

**Brief Description:** Funding the unfunded actuarial accrued liability in plan 1 of the public employees' retirement system and plan 1 of the teachers' retirement system.

**Sponsors:** Representatives Fromhold, Conway, Lovick, Quall, Simpson, Ormsby and Moeller; by request of Select Committee on Pension Policy.

#### Brief Summary of Bill

- Begins a three-year phase-in of contribution rates to fund the required contributions towards the unfunded liabilities in the Public Employees' Retirement System Plan 1 on July 1, 2006 and the Teachers' Retirement System Plan 1 on September 1, 2006.
- Directs the State Actuary to recommend annual rates to the Pension Funding Council that will complete the three-year phase-in of the UAAL during the 2005-09 fiscal biennium.

**Hearing Date:** 1/18/06

**Staff:** David Pringle (786-7310).

#### Background:

The Office of the State Actuary is responsible for recommending appropriate member and employer contribution rates for the Public Employees', Teachers', School Employees', and Washington State Patrol Retirement Systems (PERS, TRS, SERS, and the WSPRS) to the Pension Funding Council (PFC), which adopts the rates for each fiscal biennium. Included as part of the rates recommended by the State Actuary to the PFC for the 2005-07 biennium were pre-funding for the gain-sharing benefit in the Plans 1 and 3 and contributions towards paying off the unfunded liabilities in the Plans 1. Contributions are made by participating employees and by state government, local government, and school district employers and placed in the retirement fund for the systems and funded by those contributions.

While the state retirement plans currently open to new members (the Plans 2 and 3) are currently fully funded, unfunded accrued actuarial liabilities (UAALs) exist in both PERS 1 and TRS 1. This means that the value of the plan liabilities, in the form of members' earned benefits to date, exceed the value of the plan assets. As of the most recent actuarial valuation, the UAAL for PERS 1 is \$2.6 billion and the UAAL for TRS 1 is \$1.4 billion. The statutory funding policy for paying off the UAAL in the Plans 1 is codified as a goal within the actuarial funding chapter. Per statute, the funding process for the state retirement systems is intended to fully amortize the total Plan 1

costs by not later than June 30, 2024. The payments towards the UAAL are included in employer rates and are not shared by members. Under Chapter 11 of the Laws of 2003 (EHB 2254) the Legislature suspended the employer contributions towards the PERS 1 and TRS 1 unfunded liabilities for the duration of the 2003-05 biennium.

Substitute House Bill 1044, enacted by the 2005 Legislature, continued the suspension of the requirement to make contributions to amortize the PERS 1 and TRS 1 unfunded liabilities, as well as the commencement of collection of contribution rates towards the future cost of gain-sharing distributions in the PERS, TRS and SERS Plans 1 and 3. The suspension of the UAAL and gain-sharing contribution rates resulted in savings to the State General Fund of about \$337 million for the 2005-07 biennium.

Substitute House Bill 1044 also began a four-year period, referred to as a phase-in period, which adopted gradually increasing annual basic employer and employee contribution rates for each year the 2005-07 biennium, and requires the State Actuary to incorporate this four-year phase-in of annual rates in the rates recommended to the PFC for the 2007-09 biennium. These four sets of annual rates are in place of two sets of rates for each of the 2005-07 and 2007-09 biennium that would otherwise have increased in larger increments from each respective preceding biennium. The four-year phase-in enacted in Substitute House Bill 1044 did not effect the resumption of the contribution rates for the UAAL and gain-sharing at the beginning of the 2007-09 biennium.

**Summary of Bill:**

A three-year phase-in of employer contribution rates to fund the required UAAL amortization payments projected for the 2007-09 biennium begins on July 1, 2006 for the PERS 1 and September 1, 2006 for TRS 1. By September 30, 2006, the State Actuary shall recommend annual contribution rates to the PFC for each year of the 2007-09 biennium that will result in the present value of contributions made towards the UAAL in PERS 1 and TRS 1 being the same with the three-year phase-in being in place as without.

The initial employer contribution rate for the UAAL in PERS 1 is 0.87 percent of pay beginning on July 1, 2006 for all plans except those of the School Employees' Retirement System that begins on September 1, 2006. The initial employer contribution rate for the UAAL in TRS 1 is 1.29 percent of pay beginning on September 1, 2006.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The act takes effect July 1, 2006.